Monday, April 15, 2013

The Honorable Dave Camp
Chairman
House Ways and Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515

The Honorable Sander M. Levin
Ranking Member
House Ways and Means Committee
1106 Longworth House Office Building
Washington, D.C. 20515

Chairman Camp, Ranking Member Levin, and Members of the Committee,

Thank you for this opportunity to share some of the concerns of my constituents with respect to reforming our nation's tax code. As this Committee continues to consider comprehensive tax reform, I respectfully ask the Committee to recognize the financial and economic benefits to our state and local partners from some of the tax-preferred provisions within the code. For example, as a former local government leader, I am particularly concerned about proposals to eliminate or cap deductions on tax-exempt municipal debt. The cost to local and state taxpayers of any such proposal should be weighed before valuable provisions are thrown out in the name of reform.

Prior to my service in Congress, I spent 14 years in local government as a member and then chairman of the Board of Supervisors of Fairfax County, Virginia. I oversaw a local government with an annual budget of $4.5 billion and a AAA bond rating. As you know, state and local governments use tax-exempt bonds to fund capital improvements like schools, roads, bridges, police stations, affordable housing, libraries, parks, water lines, and other projects that not only provide valuable community infrastructure but also create jobs.

Our local and state governments continue to recover from the lingering effects of the Great Recession. They are tasked with maintaining our country's aging infrastructure and building new capacity and facilities to accommodate population and economic growth, all of which is vital to our competitiveness. Shrinking federal assistance has made this task more difficult. It makes little sense to restrict this deduction in the face of so many other cuts to federal grant programs for infrastructure. For example, the Community Development Block Grant program has been cut by 34% since FY1995. CDBG and similar federal programs for water and wastewater infrastructure are at their lowest funding levels since the 1970s. Eliminating or capping the current tax treatment for municipal debt would represent yet another disinvestment that puts at risk our global competitiveness.

State and local bonds have been used over the years to fund trillions of dollars in infrastructure improvements, and the Federal tax-exemption has saved them and our taxpayers billions of dollars in interest costs. The Government Finance Officers Association recently studied the effects of limiting the full tax-exemption on interest earned from municipal securities to 28% and concluded that it would raise borrowing costs on state and local governments between 60-75 basis points. In Virginia's 11th Congressional District, Fairfax County plans to issue over $1.5 billion in tax-exempt debt over the next 5 years. Even this seemingly modest proposal would cost Fairfax County $9 million to $12 million. Similarly, in my district, Prince William County plans to fund 90% of their $1 billion, 5-year Capital Improvement Plan with municipal debt issues. They would face a $5.5 million to $7 million increase in borrowing cost.

In addition, I urge the Committee to consider reinstating the Build America Bonds program, one of the most successful and efficient programs to come out of the American Recovery and Reinvestment Act of 2009. This Committee is currently considering several bills, including my proposal, the Put America Back to Work Act (H.R. 535). This bill would extend permanently the Build America Bonds program, reduce the subsidy rate to issuers from the original 35% to a more budget neutral 28%, allow issuers to issue these cost-effective bonds for operating expenditures, and allow the refunding of currently issued bonds under the original program. Congressman Neal, Ranking Member of the Subcommittee on Select Revenue Measures, also has introduced a similar proposal (H.R. 789) that calls for the reinstatement of the Build America Bonds program.

The market reaction to Build America Bonds was strong and positive. By the end of 2009, these bonds represented 15.66% of total municipal bond issuances and 27.09% by the end of 2010. When the program expired, 2,275 Build America Bonds had been issued supporting more than $180 billion in projects. Build America Bond sales represented more than 36% of total municipal debt issues at that time, proof of the value and utility of this program. The U.S. Treasury carefully tracked and monitored the Build America Bonds program and estimates that state and local governments that issued BABs saved an estimated $20 billion in borrowing costs. All the data points to the overwhelming success of this program, and I believe tax-credit and direct-subsidy bonds, like the Build America program, are a complement to municipal tax-exempt bonds, providing state and local government with another tool to fund necessary and vital infrastructure.

Retaining the current tax-exemption of municipal bonds and reinstating the Build America Bonds program would signal that Congress can work, in a bipartisan fashion, on policies that overwhelmingly benefit our local communities and economy. Municipal bonds provide every congressional district a steady, flexible and reliable financing instrument for capital projects. I respectfully request the Committee consider the economic ramifications in considering any restrictions on this long-standing tool for investing in and maintaining critical infrastructure, and I respectfully request you consider reviving the successful Build America Bonds program to give our local partners another tool to fund vital projects.

Sincerely,

Rep. Gerald E. Connolly
Member of Congress
Virginia, 11th District